

## Message Text

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ACTION EA-10

INFO OCT-01 ISO-00 EB-07 L-02 PM-03 NSC-05 SP-02 SS-15

CIAE-00 INR-07 NSAE-00 OMB-01 TRSE-00 SSO-00 NSCE-00

INRE-00 /053 W  
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O P 150455Z MAY 75  
FM AMEMBASSY JAKARTA  
TO AMEMBASSY MANILA IMMEDIATE  
SECSTATE WASHDC PRIORITY 8154  
USDOC PRIORITY  
INFO AMCONSUL MEDAN  
AMCONSUL SURABAYA

C O N F I D E N T I A L JAKARTA 5844

E.O. 11652: GDS  
TAGS: BEXP, ID  
SUBJECT: KRAKATAU STEEL SEEKS CONSULTANT

REF: A. STATE 107936 B. JAKARTA 5044

1. FOLLOWING FOR INFO STATE AND COMMERCE AND FOR USE  
ON BACKGROUND BASIS WITH U.S. FIRMS INTERESTED IN  
KRAKATAU CONSULTING OPPORTUNITIES.

2. IN EYES OF MANY INDONESIANS, USG IS IDENTIFIED WITH  
STRONG EFFORTS TO REDUCE OIL PRICES AND TO WEAKEN, IF  
NOT DESTROY, OPEC. THERE IS UNDERCURRENT OF BELIEF  
WITHIN IMPORTANT CIRCLES HERE THAT, AS PART OF SUCH  
EFFORTS, USG WORKING QUIETLY TO WEAKEN PERTAMINA.

2. THUS WHEN PERTAMINA'S SERIOUS FINANCIAL PROBLEMS  
BEGAN TO COME TO LIGHT, EMBASSY MADE VERY STRONG  
EFFORT TO COOPERATE FULLY IN GOI EFFORTS PROTECT  
PERTAMINA'S NAME AND MAINTAIN CONFIDENCE OF INTERNA-  
TIONAL FINANCIAL COMMUNITY, AND TO AVOID ACTIONS OR  
WORDS WHICH MIGHT SEEM AS PREJUDICIAL OR EMBARRASSING  
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TO PERTAMINA.

3. AS DEPARTMENT AWARE, KRAKATAU WAS AMONG MOST AMBITIOUS OF PERTAMINA'S PROJECTS AND ONE OF MOST IMPORTANT REASONS FOR PERTAMINA'S FINANCIAL DIFFICULTIES. IN ADDITION, KRAKATAU INVOLVES SOME VERY POWERFUL INTERESTS IN INDONESIA (INSIDE AND OUTSIDE PERTAMINA) AND IT IS STILL OPEN TO QUESTION WHETHER ALL THESE INTERESTS HAVE FULLY ACCEPTED GOI DECISION TO REMOVE KRAKATAU FROM PERTAMINA'S AEGIS AND TO LOWER ITS PRIORITY, SCOPE, AND FINANCIAL REQUIREMENTS. GENERAL IBNU'S ATTEMPT TO SAVE KRAKATAU BY ROUNDING UP NEW GERMAN MEDIUM-TERM FINANCING IN DEFIANCE OF PRESIDENTIAL DIRECTIVES (REF B) DEMONSTRATES THESE OPPOSITION FORCES WERE NOT PREPARED TO ACCEPT LOSS OF KRAKATAU CONTROL. GERMANS ARE CLAIMING IT WILL COST INDONESIA MORE (BECAUSE OF CANCELLATION PENALTIES AND OTHER CHARGES) TO RESTRUCTURE THE PROJECT THAN IT WOULD TO PROCEED AS PLANNED. THEIR CONTRACTS MEAN HUNDREDS OF MILLIONS TO THE GERMAN COMPANIES AND WE CANNOT EXPECT THEM TO YIELD WITHOUT A DETERMINED STRUGGLE.

4. AGAINST THIS BACKGROUND WE FEEL IT NECESSARY TO BE PARTICULARLY SENSITIVE TO INDICATIONS THAT SOME INDONESIANS BELIEVE (OR FIND IT ADVANTAGEOUS TO CHARGE) THAT USG IS INVOLVED IN EFFORT TO REDUCE PRIORITY AND SCOPE OF KRAKATAU PROJECT. ACTIVE USG ROLE RELATED TO KRAKATAU CAN PERPETUATE BELIEF THAT USG SEEKING TO WEAKEN PERTAMINA AND ADVERSELY AFFECT OUR POSITION WITH SOME KEY FIGURES ON INDONESIAN POLITICAL SCENE. THESE CHARGES, OR VARIANTS THEREOF, ARE OF COURSE PATENTLY ABSURD BUT, AGAINST BACKGROUND OF BELIEF IN OUR ANTI-OPEC AND OIL-PRICE POSITION, THEY ARE BELIEVED BY INTRIGUE-PRONE INDONESIANS, PARTICULARLY THOSE WITH HEAVY FINANCIAL INTEREST AT STAKE. (RE SPECIFIC QUESTIONS POSED PARA 2 REF A, OUR VIEW THAT U.S. INTERESTS AT RISK IN SITUATION DESCRIBED ABOVE DWARF IN SCOPE THOSE OF MOBIL HYPOTHESIS.)

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5. WE HAVE FELT THAT PROPER U.S. POSTURE IS AS FOLLOWS: WHILE BRINGING OPPORTUNITIES OFFERED BY KRAKATAU'S CONSULTANCY TO ATTENTION OF U.S. COMPANIES, WE SHOULD (A) AVOID ACTIVE APPROACHES TO GOI TO ENCOURAGE SELECTION OF U.S. COMPANIES; (B) LEAVE DECISION RE PURSUING KRAKATAU OPPORTUNITIES ENTIRELY TO COMPANIES; AND (C) SEEK TO ENSURE THAT COMPANIES UNDERSTAND KRAKATAU IS AREA WHERE THEY MAY

BECOME INVOLVED CN HIGH POLITICAL INTRIGUE AND MAY  
HAVE TO STAND HEAT GENERATED BY POTENTIAL LOSSES OF  
MONEY AND POWER AT STAKE.

6. IF WE MAINTAIN SUCH POSTURE AND CAUTION ALL  
INTERESTED U.S. COMPANIES OF POLITICAL RISK, WE  
BELIEVE WE CAN HELP CUSHION USG AGAINST CHARGES OF:  
(A) SEEKING TO RESTRUCTURE KRAKATAU PROJECT TO DIS-  
ADVANTAGE OF IMPORTANT INDONESIAN INTERESTS;  
(B) FAILING TO ALERT USG COMPANIES TO POLITICAL RISKS  
INVOLVED.  
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## Message Attributes

**Automatic Decaptioning:** X  
**Capture Date:** 01 JAN 1994  
**Channel Indicators:** n/a  
**Current Classification:** UNCLASSIFIED  
**Concepts:** STEEL PLANTS, BUSINESS FIRMS, INVESTMENTS  
**Control Number:** n/a  
**Copy:** SINGLE  
**Draft Date:** 15 MAY 1975  
**Decaption Date:** 01 JAN 1960  
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**Disposition Approved on Date:**  
**Disposition Authority:** CunninFX  
**Disposition Case Number:** n/a  
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**Disposition Date:** 28 MAY 2004  
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**To:** MANILA COM  
**Type:** TE  
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